

## Social Security Administration

## Internal Revenue Service

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# Reporter

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A Newsletter  
for Employers

## Employers Who Offer Employees Cafeteria Benefit Plans Must Report Them to the IRS

If you are an employer that maintains a cafeteria or flexible benefit plan for your employees, you must file an information return for each year. Employers must file Form 5500, Annual Return/Report of Employee Benefit Plan, with Schedule F to meet this requirement. No exceptions exist for filing Form 5500 for cafeteria plans.

Also, state agencies, governmental agencies, and Indian tribes are required to file Form 5500 for cafeteria plans even though they may be exempt under the Employee Retirement Income Security Act of 1974 (ERISA) from filing Form 5500 for pension benefit and welfare benefit plans.

This is how a cafeteria plan works. Section 125 of the Internal Revenue Code (Code) makes it possible for employers to offer their employees a choice between cash and a variety of nontaxable benefits known as "qualified benefits". A qualified benefit is a benefit that does not defer compensation and which is excludable from an employee's gross income under a specific provision of the Code.

These qualified benefits include health care, vision and dental care, group-term life insurance, disability, adoption assistance, and certain other benefits. Employers may offer flexible spending accounts to employees that provide coverage under which specified, incurred expenses may be reimbursed. These include health flexible spending accounts for expenses not reimbursed under any other health plan and dependent care assistance programs.

An employer's contribution to a cafeteria plan is usually made as a result of a salary reduction agreement between the

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### Notice of SSN Mismatch Not Basis for Adverse Action

Social Security notifies employers when reported employee names or Social Security numbers (SSN) don't match Social Security's records. It's important to understand that a mismatch doesn't necessarily mean the worker is using someone else's Social Security number or that the worker is an undocumented immigrant.

Some employers may take action against an employee based on the information in the notices. The notice of a mismatched name or number in an employer's wage report does not imply that the employee intentionally provided incorrect information and should not be a basis for adverse action against the employee. If an employer transfers, lays off, terminates or otherwise takes action against an employee based on information contained in the notice, the employer may violate the laws of the United States and be subject to prosecution or other legal consequences.

If a notice of a mismatched Social Security number is received from Social Security, the employer should check the records for a mistake in the reported number or worker's name. It could be something as simple as an inverted

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## More Volunteers Eligible for EFTPS!

**T**he Electronic Federal Tax Payment System (EFTPS) continues to offer all taxpayers an easy way to pay their Federal taxes, and those benefits are compelling more and more taxpayers to use the system. Over 2.4 million taxpayers have enrolled in EFTPS, and that includes more than one million volunteers.

Beginning January 1, 2000, the threshold requiring the use of EFTPS will be changed from \$50,000 to \$200,000. The regulation for the new \$200,000 threshold applies to the total deposits made in 1998. This means that businesses must consider deposits of all types of taxes (such as employment, excise or corporate income tax) made during 1998 to determine if they are required to use EFTPS. Between July 1, 1999, through December 31, 1999, the IRS will waive penalties for required taxpayers that deposited \$200,000 or less in calendar year 1998, and do not use EFTPS.

The threshold change reduces the number of taxpayers required to use EFTPS and provide options for small businesses to comply with the tax rules and regulations. The Treasury Department encourages business taxpayers to learn more about EFTPS and to experience the ease and convenience of electronic payments. Taxpayers currently using the system tell us they are very pleased with the accuracy and speed of EFTPS.

To join the millions of taxpayers already enjoying the benefits of EFTPS, please call EFTPS Customer Service at 800-945-8400 or 800-555-4477 to receive an enrollment form or additional information. **IRS**

## SSA Eliminates 8" and 5¼" Diskettes for AWR Filing

**S**SA will no longer accept annual wage reports (Forms W-3/W-2) filed on 5¼-inch diskettes effective tax year 2000 (for W-2s due in calendar year 2001). SSA previously announced the elimination of 8-inch diskettes beginning tax year 1999. Both the 5¼ and 8 inch diskettes are being eliminated to simplify the diskette reporting process and achieve a more efficient program for SSA, employers and the payroll community.

Alternative methods of filing include electronically via SSA's Online Wage Reporting Service (OWRS), ½ inch magnetic tape, 3480 cartridge or 3490 cartridge. **SSA**



## New Lower Rates Determine the Cost of Employer-Provided Group-Term Life Insurance

**M**any employees will pay less social security and Medicare tax under new rules that apply to group-term life insurance. Beginning July 1, 1999, new rates go into effect to determine the cost of employer-provided group-term life insurance of more than \$50,000. For most group plans, the first \$50,000 of coverage is excluded from social security and Medicare tax for each employee per year. IRS regulations provide a table showing the cost per thousand dollars of coverage of group-term life insurance of more than \$50,000 paid by the employer.

Employers may treat the costs as paid at any time or period, but they must be treated as paid at least once per year. The rates for costs treated as paid after June 30, 1999, and for prior periods are found in *Table A*.

Until January 1, 2000, you may treat the new "Under 25" and "25 to 29" brackets as one "Under 30" bracket with a rate of .06.

Note: The change in rates may result in group-term coverage provided under some employee-pay-all plans that previously was not taxable to become subject to the

## The Social Security Statement— A Message for Employees

In October 1999, SSA will begin mailing the Social Security Statement (formerly known as the Personal Earnings and Benefit Estimate Statement) to all workers age 25 and older (about 125 million) who are not already receiving monthly Social Security benefits.

Employers and payroll organizations have suggested that SSA prepare an "employee message" that could be distributed in advance of the October 1999 mailings. The message would explain the upcoming mailing and potentially minimize calls or questions to payroll offices once the mailings begin. The following sample message is for your use. It's suitable for reproduction in company

newsletters, bulletin boards, paycheck stuffer, etc.

### Your Social Security Statement: The Futures In Your Hands

In October 1999, the Social Security Administration will begin mailing Social Security Statements (formerly known as the Personal Earnings and Benefit Estimate Statement) to all workers age 25 and older (about 125 million) who are not already receiving monthly Social Security benefits.

You can expect to receive your Statement each year about three months before your birth month. For example, if your birthday falls in February, you can expect to receive your Social Security Statement in November.

The 4-page Social Security Statement is intended to help you plan your financial future by providing estimates of the monthly Social Security retirement, disability and survivors benefits you and your family could be eligible to receive now and in the future. The Statement will remind you that Social Security is the foundation on which to build a more secure future.

The information in the Social Security Statement also will provide you with an easy way to determine whether your earnings (or self-employment income) are accurately reported and recorded on your Social Security record. Making sure the name and Social Security Number your employer has on record matches your Social Security card is the best way to ensure earnings will be accurately posted. That's important because the amount of your future benefits will be

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same rules of taxation as employer-financed group-term plans. However, a special transitional rule allows you to use, until January 1, 2003, the old rates for determining whether coverage under your employee-pay-all plan is subject to taxation.

For more information See IRS Reg 1.79-1 and Publication 535, *Business Expenses*.

For IRS tax forms, publications and more, contact IRS' Web site at <http://irs.ustreas.gov>. **IRS**

Table A

### Cost Per Thousand Dollars of Coverage of Group-Term Life Insurance Over \$50,000 Paid by the Employer

5-year Age Bracket	Cost Per \$1,000 of Coverage Per Month	
	new table effective 7/1/99	old table prior to 7/1/99
Under 25	0.05	—
25 to 29		(Under 30) .08
30 to 34	.08	.09
35 to 39	.09	.11
40 to 44	.10	.17
45 to 49	.15	.29
50 to 54	.23	.48
55 to 59	.43	.75
60 to 64	.66	1.17
65 to 69	1.27	2.10
70 and above	2.06	3.76

## Census Takers Needed for Census 2000

**T**he Bureau of the Census is currently recruiting nationally for people to help conduct Census 2000. Census takers, earning \$6 to \$15 an hour, will work approximately six to eight weeks. You can apply if...

- You are 18 years or older.
- You can work evenings and weekends.
- You take a written test of basic skills.
- You agree not to engage in any partisan political activity within 24 hours of performing work.

- Males age 18 or older, born after Dec. 31, 1959, must be registered with selective service.

Even though preference is given to U.S. citizens, qualified non-citizens may be considered if enough qualified citizens are not available. If you, or people you know, are interested in applying for a position with the Census Bureau or would like more information, call the toll-free number, 1-888-325-7733. **SSA**

## Cafeteria Benefit

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employer and the employee. The employee agrees to contribute a portion of his or her salary on a before-tax basis to pay for the qualified benefits. Since salary reduction contributions are not actually or constructively received by the participant, the contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to Federal Insurance Contribution Act and Federal Unemployment Tax Act taxes.

A salary reduction agreement is sufficient to satisfy the "cash" requirement of a cafeteria plan. Thus, a cafeteria plan needs only to offer a choice between one qualified benefit and salary reduction. **IRS**

## Social Security Statement

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based on your Social Security earnings record. The Statement will tell you how to correct inaccurately recorded earnings.

In addition to helping plan your retirement, these are other ways to use your Social Security Statement:

- Plan your financial security for today and tomorrow by knowing the amounts of Social Security benefits that could be available to you and your family if you become disabled.
- Determine whether you have sufficient insurance to protect your survivors if you die.
- See how your potential Social Security benefits fit in with your investments and savings.

For more information about Social Security benefits, call or visit your local Social Security office, call this toll-free number, 1-800-772-1213, or visit this Web site: [www.ssa.gov](http://www.ssa.gov). **SSA**

## DOJ Advises Tax Credit and Deduction to Help Businesses Comply with the ADA

All businesses, regardless of size, must comply with the Americans with Disabilities Act (ADA).

Small businesses may use a tax credit of up to \$5,000 a year to offset half the cost of: altering facilities, purchasing equipment, providing Braille or a sign language interpreter, or other modifications to improve accessibility for customers or employees.

All businesses may take a deduction of up to \$15,000 a year to offset the cost of altering facilities to improve accessibility.

To learn about the ADA and order a free ADA Tax Incentive Packet, call the ADA Information Line at 800-514-0301 (voice) or 800-514-0383 (TTY) or access the ADA Home Page at [www.usdoj.gov/crt/ada/adahom1.htm](http://www.usdoj.gov/crt/ada/adahom1.htm). **IRS**

## SSN Mismatch

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number or a failure to report a name change.

Social Security suggests that the best way to prevent problems is to verify employee records and W-2s for accuracy when filing the annual wage reports:

- Ask employees to check the name and number on their W-2s with their Social Security card;
- Remind employees to report name changes to Social Security; and
- Ask to see a new employee's Social Security card to record the name and number exactly as shown on the card.

In this way, you can avoid the need to divert time and resources to the problem of fixing erroneous Social Security numbers.

This issue should not be confused with the ongoing pilot in several states in which SSA will verify the Social Security number and work status of a job applicant upon request from an employer. The pilot involves new hires while the mismatch problem involves current employees whose mismatched Social Security numbers or names show up in the employer's wage reports to Social Security. **SSA**